CI BRUNSWICK FUND
QUARTERLY COMMENTARY REPORT

Cooper Investors Pty Limited AFS Licence Number 221794 ABN 26 100 409 890

For current performance information please refer to the Monthly Performance Report.

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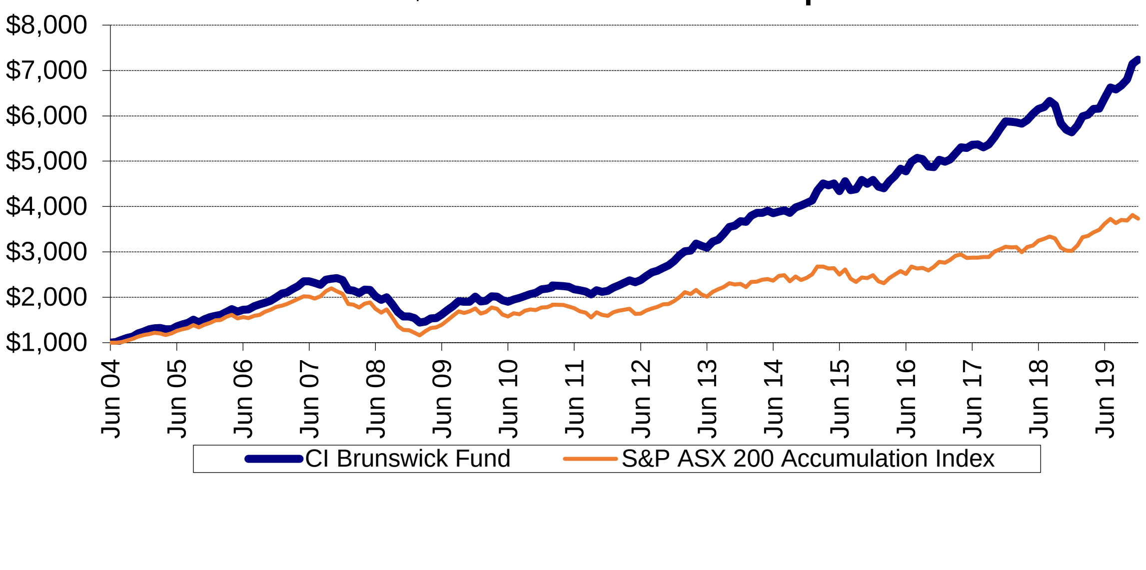
The Brunswick Fund Proposition

"The Brunswick Fund's mission is to deliver above market returns by <u>leveraging</u> CI's VoF philosophy & the fund's <u>unconstrained</u> investment universe. The strategy is to be less volatile to the downside & capture upside by investing in <u>quality</u> companies that display <u>proprietorial</u> management behaviour. There are 3 <u>competing</u> capital pools ~ compounder, reversionary & real income/assets securities, so we are always redeploying income & surplus capital into the best risk adjusted value latency opportunities"

	**PORTFOLIO	#BENCHMARK	VALUE ADDED
LAST 3 MONTHS	8.9%	0.7%	8.2%
FY 2020 YTD	13.9%	3.1%	10.8%
FY 2019	5.1%	11.5%	-6.4%
FY 2018	16.0%	13.0%	3.0%
FY 2017	13.4%	14.1%	-0.7%
FY 2016	12.5%	0.6%	11.9%
FY 2015	14.3%	5.7%	8.6%
FY 2014	26.8%	17.4%	9.4%
FY 2013	32.0%	22.8%	9.2%
FY 2012	12.4%	-6.7%	19.1%
FY 2011	16.1%	11.7%	4.3%
FY 2010	18.7%	13.1%	5.6%
FY 2009	-19.4%	-20.1%	0.8%
FY 2008	-12.9%	-13.4%	0.5%
FY 2007	45.7%	28.7%	17.1%
FY 2006	35.3%	23.9%	11.4%
FY 2005	47.6%	26.4%	21.2%
SINCE INCEPTION*	16.5%	8.9%	7.6%
SINCE INCEPTION^	971.6%	273.1%	698.5%

*Annualised ^Cumulative (1 July 2004) **Before fees and expenses # S&P ASX 200 Accumulation Index

CI Brunswick Fund - Net of Fees
$1000 Invested Since Inception



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"Wisdom is not a product of schooling but of the lifelong attempt to acquire it"

— Albert Einstein

"People calculate too much and think too little"

— Charlie Munger

Market and Portfolio Performance

The ASX200 Accumulation Index rose 0.7% over the quarter capping off a strong year for equities markets globally. The global economy was mixed throughout the year with 2019 rate cuts helping to offset an economic slowdown that started in the second half of 2018. Rate cuts also helped underpin the performance of most equities markets for the year. During calendar year 2019 the ASX200 Accumulation Index increased 23.4%.

During the quarter, the Brunswick Fund performed well both in absolute terms and relative to the benchmark, increasing 8.9%. Across calendar year 2019 the Fund increased 29.9%.

Key contributors to portfolio performance during the 3 month period include **CSL (CSL)** (strong FY19 result), **Napier Port Holdings (NPH)** (solid result, recovery in log prices) and **Lifestyle Communities (LIC)** (improving outlook for housing market).

Portfolio stocks that performed relatively poorly include **Aurizon (AZJ)** (concern about coal volumes given weak coal price), **Graincorp (GNC**) (concerns the drought will impact near term results despite GNC's derivative protection), and **Constellation Software (CSU)** (no news).

Napier Port Holdings (NPH) released a solid FY19 result in November with earnings increasing 8% on the prior period which was marginally ahead of prospectus forecasts. Since listing in August, NPH has performed strongly (+60%) with the re-rating aided by more favourable industry log pricing outcomes (+10% from its recent lows), a key driver of log volume through the Port.

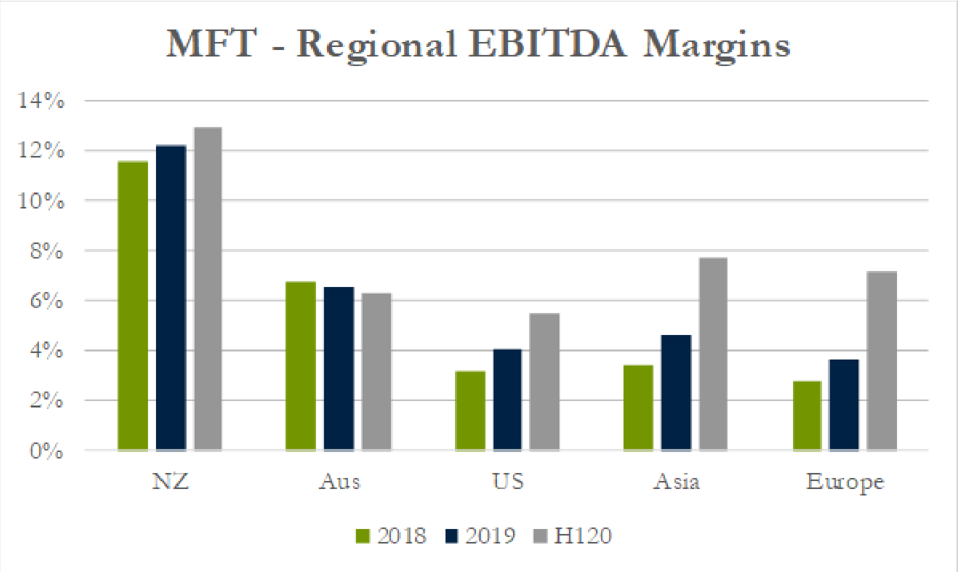
As we detailed in the September quarterly, our VoF proposition for Napier Port is based on our view there is significant capacity to optimise the existing cost base, increase employee productivity and improve asset efficiency as the Port transitions from 100% council ownership.

During the quarter, **Freightways (FRE)** announced the acquisition of "Big Chill", one of the two largest refrigerated logistics companies in NZ. Unlike Australia, the NZ refrigerated logistics market is consolidated by players who have scale advantage and generate attractive margins. Cold storage is a relatively non-discretionary service, focused on the food service and supermarket sectors. The acquisition further reduces FRE's exposure to its core express package business, which slowed in 2019 as the NZ economy slowed. Our VoF proposition for FRE (a Compounder/Stalwart) is based on its successful history of deploying capital into small but accretive acquisitions and organic opportunities at relatively attractive returns.

Mainfreight (MFT) reported their first half FY20 results during the quarter. Revenue increased 5% (a slower rate of growth than in recent periods), EBITDA was up 10% and EPS up 12%. Margin expansion was mostly offshore with EBITDA growth in US and Europe both very strong (+22% and +34%), which reflected improved utilisation particularly in Europe.

MFT management remains focused on the opportunity to continue to grow in its target segments in the large US/European markets, particularly with its existing clients. Over its roughly 25 years as a listed company, MFT has grown sales at a 14% CAGR. Our VoF proposition for MFT is based on a continuation of growth in both ANZ and US/Europe driven by MFT's strong service culture, premium positioning and its focused execution.

In addition, we expect there is further room for margin expansion across MFT's business as it continues to grow its network and reinforces its advantage with customers.



We attended presentations and a site tour for Canberra Data Centres ("CDC"), owned by **Infratil (IFT)**. For context, CDC is just under 20% of our of sum of parts valuation of Infratil. Our VoF proposition for the headstock, is based on its ability to influence capital deployment within existing investments as well as its ability to add value through operating performance improvement.

CDC's CEO, Greg Boorer, was one of the founders of the company 12 years ago. Over that time CDC has grown into a billion dollar business with a niche competitive advantage, as the preferred supplier of Data Centre services to Government. CDC has long-term contracted customers with a 17 year weighted average lease expiry.

During the Investor Day, CDC's differentiated product offering (vs competitors such as NextDC and AirTrunk) was reiterated multiple times. The company's ecosystem which incorporates Government, hyperscale and enterprise customers is a powerful platform in which a very large percentage of data traffic never leaves the data centre. CDC is able to achieve higher pricing (as highlighted by its per MW financials) and higher sales conversion rates in part due to its industry leading security capabilities, which are particularly valued by its Government clients.

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Given CDC generates attractive incremental returns with the opportunity to deploy a significant amount of capital, and its cost of capital continues to decline as it de-risks its existing portfolio, we expect a significant level of value creation over the next few years. Pleasingly, the company detailed during the Investor Day an intention to deploy in excess of $1.2bn over the next 3-4 years as it adds ~150MW of capacity at existing sites.

We expect to receive additional information in February on the **Graincorp (GNC)** de-merger which is proposed for March/April 2020. Although the stock continues to tread water with the ongoing drought, we anticipate the de-merger will help to highlight the quality of the Malt business, which comprises ~75% of our valuation and nearly 100% of GNC's current enterprise value on our estimates. In our view, the quality of the Malt business has been obscured for geographical reasons, being a predominantly North American focused business with the domestic Grains and Oils divisions garnering the majority of investors' attention for historical reasons. The demerger process should also see a reset of the cost base across both businesses with a refocus of management attention.

Eureka Group (EGH) undertook an attractive bolt-on acquisition in late December, a 124 unit Village in Bundaberg which we estimate to be ~15% EPS accretive. Importantly, the acquisition is consistent with its strategy of scaling the business (given Corporate overheads comprises ~100% of Underlying NPAT) by focusing on its core proposition (independent living units) and improving the overall quality of the portfolio (units are higher quality, require less refurbishment and interestingly the village is purely rental with no food provision). We expect EGH to continue scaling the business in 2020 given the highly attractive asset economics, which is accentuated by the company's current sub-scale position.

Xero (XRO) reported another very strong set of operating results. Growth in the UK (+51% growth in subscriptions) and Australia (+28% growth in subscriptions) was underpinned by regulatory tax reform (making tax digital and single touch payroll). Our VoF proposition for XRO is based on its expected strong top-line growth profile particularly in ANZ and the UK. In addition, the company appears to be on track to deliver EBITDA in the range of $140-150m having recently reached a significant inflexion point in terms of profitability. In FCF terms, XRO continues to invest heavily in R&D and sales and marketing to continue to develop its platform and grow into new markets. With more than 2m subscribers and $764m of annual recurring revenue as at the H1 20 result, XRO's business has reached a level of scale that should help support ongoing growth in new geographical markets, as well as expansion of its revenue base in existing markets through new and expanded products.

During the quarter we established a position in **Fortive Corp (FTV).** Fortive was spun out of Danaher (a company CI has long followed and owned in the CI Global Equities Fund) two years ago, representing the legacy industrial operations from Danaher after the majority of the portfolio had shifted towards healthcare and technology-based businesses. Steve and Mitch Rales who founded Danaher retain significant interest in Fortive (~11% of shares), and are Directors of the company.

Over the last few years Fortive has made sizeable and attractive portfolio moves (buying $5.5bn and selling $3bn worth of businesses) with a pathway away from legacy manufacturing towards a more technology and recurring revenue-based profile overseen by a successful and experienced management team. Businesses acquired include the leading provider of construction cost estimation software, leading facilities and asset management software and the sterilisation products business from Johnson & Johnson. Over the years we have stayed close to the company. Like Danaher we hold the Fortive team in high regard for its focused management behaviour.

More recently Fortive announced it will split into two separate groups ~ one focused on transportation related technologies assets and one focused on connected device & emerging digital "internet of things" with increasing growth profile and recurring revenues.

December saw a slew of positive news out of **Ferrovial (FER)**.

Firstly the sale of Broadspectrum to Ventia (a provider of infrastructure services in Australia and NZ) marked the first significant piece of business in the strategy to exit Services. The divestment process has proven more difficult than hoped - initially it appeared a large private equity buyer would purchase the lot but the outcome now looks more piecemeal with smaller local players taking out specific chunks. Though the process now drags out longer our discussions with management indicated confidence that it should lead to a better result. The price achieved for Broadspectrum backs this up – proceeds of €330mn is ~20% higher than analysts had expected.

Secondly the refinancing of Ferrovial's major Managed Lane ["ML"] asset in Texas, the North Tarrant Expressway was announced wherein the weighted average cost of debt was lowered by almost 200bps, from 5.45% to 3.47%. While the reduction is partially explained by lower interest rates since the initial financing, we see the size of the delta speaking more to the maturing nature of the risk profile of MLs as an asset class. The company's other Texan ML 'LBJ' can be refinanced next year and a similar outcome should benefit a stronger ramp up of distributions from the MLs over the next 5 years.

Finally the result in the UK General Election was welcome at Heathrow Airport where a long-planned expansion and third runway has been a political hot potato. The Conservative manifesto confirmed Government support for the expansion which should lead to a considerable increase in the current RAB base of ~£17bn. The masterplan looks for capacity growth to 130mn passengers by 2035, an increase of over 50% from this year's 80-85mn. Heathrow announced a £500mn dividend for 2019, 25% higher than had been previously expected. Ferrovial's share of this plus consideration for Broadspectrum adds a further half a billion Euros into their existing cash pile of €1.2bn with numerous opportunities for deployment.

The Portfolio – Strategy, Process and Structure

Objective & Structure

Provide long-term returns above the ASX200 Accumulation Index via:

- Long-only, focused portfolio (20-40 stocks) with VoF qualities.
- No leverage, no derivatives, no shorting.
- Non-index, endowment-like philosophy across domestic and international markets.
- Small team leveraging CI's well-resourced research platform and back-office strength.

Differentiated Strategy

1. "Pure" application of CI's VoF Philosophy:
   - Benchmark unaware.
   - 3 competing pools of capital – Compounding, Reversionary, and Real Assets and Income.
   - Focus on companies with proprietorial behaviour.

2. Limited capacity:
   - Event and liquidity opportunities (ELOs), sell downs, IPOs and spin-offs.
   - Quality small and mid-cap opportunities.

3. Access to the CI global stocks:
   - Leverage to CI's global research (up to 25% of Fund).
   - World-class global and regional champions.
   - Australian equities global comparison companies.

Process

Our singular goal is to identify 'risk-adjusted value latency' diversified across 'subsets of value' by focusing on businesses that have:

1. Identifiable value latencies.
2. Good operating trends and strong industry/strategic positions (with enduring qualities).
3. Focused Management Behaviour ('proprietorial' managers with skin and soul in the game).

The Fund stocks can be grouped into three key areas or capital pools:

1. **Compounding sources of value – Growth and Stalwart companies**
   - World-class global, regional and domestic companies with preferential businesses or assets and a pathway to future underappreciated value options.
   - Currently, we are focused on companies exposed to:
     - Ageing and Health.
     - New Economy (particularly software businesses).
     - Data and Telco infrastructure.
     - Everyday needs.

- **Stalwarts** (32% of the portfolio)
  - Sturdy, reliable and generally larger companies with world-class privileged markets and competitive positions. (ASX, Brambles)
- **Growth companies** (23%)
  - Growing companies with value propositions identifiable by traditional value metrics and run by focused, prudent and experienced management. (Lifestyle Communities, Xero, CSL)

2. **Reversionary sources of value – Cyclicals and Quality Turnarounds**
   - In particular, we like spin-offs, privatisations and large-cap liquidity events (such as sell-downs) where management is in place with a plan for unlocking value, with follow-on value creating opportunities, and the assets are attractive to other potential owners.
   - At the moment, we are focused on:
     - Cyclicals in the agriculture sector exposed to drought.
     - Cyclicals exposed to US housing.
     - Infrastructure privatisations.
   - **Cyclicals** (7%)
     - Stocks showing upside leverage to the cycle with experienced and contrarian managers who can allocate capital prudently and with good balance sheets. (Ferguson)
   - **Quality turnarounds** (8%)
     - Sound businesses with good management and balance sheets. We especially like spin-offs and government-to-private turnarounds. (Graincorp, Napier Port)

3. **Real asset and income sources of value – Bond-Like Equities, and Asset Plays**
   - This includes holding companies, Listed Investment Companies (LICs), infrastructure and specialised real-estate companies and other asset-rich companies with growth and hidden value options, and catalysts for capturing value.
   - At present, we are focused on:
     - Social infrastructure.
     - Family-linked holding companies.
     - European conglomerates
     - Overcapitalised Japanese companies
   - **Bond-like equities** (12%)
     - Stocks backed by assets (infrastructure, property, utilities etc) with secure, low-volatile earnings and dividends that can be grown and recapture inflationary effects over time. (ALE Property Group, Arena REIT)

- **Asset plays** (14%)
  - Owner, operator managers with long term commitment to shareholders growth in asset value. Stocks with strong or improving balance sheets trading at discounts to net asset value or replacement value. (Brickworks)

We seek to partner with focused managers that display enduring proprietorial qualities with the ability to deliver the value latency options afforded by good operation, industry and strategic position/trends. The management and governance cultures of the companies we seek fall into 3 broad categories:

1. Family-linked and founder-led companies.
2. Owner-operator cultures.
3. Specialised, focused managers who are resetting governance and management priorities.

All of these proprietorial management styles have the following behavioural qualities:

- Focus – intentional and know what they are doing.
- Humility – authentic, energetic and focussed on long-term value.
- Alignment with and respect for shareholder interests.
- Deep, nuanced knowledge of the business/industry.
- Value and risk-based capital allocation (often counter-cyclical).
- Invest in skills, talent and innovation.

At the end of the period, the portfolio held around 3% cash and has around 23% of assets invested in overseas stocks that own businesses in USA, Canada, UK and Mexico.

Portfolio attributes as at December 2019 are summarised below:

P/E	20.40
Beta	0.79
Yield	2.40
P/Book	2.50
ROE	11.70
Tracking error vs. ASX 200	4.92
Stock Number	36

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Portfolio Risk Metrics

The portfolio's volatility remains below the benchmark, driven by its more diverse stock holdings and lower concentration risk compared to the big four banks and large resource companies:

	*PORTFOLIO	#BENCHMARK
Total Return	+885%	+271%
Max Drawdown	-40.0%	-47.2%
Best Month	+7.4%	+8.0%
Worst Month	-10.1%	-12.6%
Positive Months	+68.9%	+63.9%
Negative Months	31.1%	36.1%
Annualised Volatility	+10.6%	+12.9%

*Cumulative (1 July 2004), before fees and expenses
S&P ASX 200 Accumulation Index
Max Drawdown for the Brunswick Fund occurred December 2007 to February 2009.
Max Drawdown for the ASX200 Accumulation Index occurred November 2007 to February 2009.
Best Month for the Brunswick Fund was November 2004, for the ASX200 Accumulation Index, it was March 2009.
Worst Month for both the Brunswick Fund and the ASX Accumulation Index was October 2008.